# MHLONTLO LOCAL MUNICIPALITY

# FUNDING AND RESERVE POLICY

## 1. OBJECTIVE OF FUNDING AND RESERVES POLICY

The objective of this policy is to provide for frameworks for establishment and maintenance of the necessary funding and reserves that will enable the municipality to support effective service delivery and to:

- Manage cash flow interruptions;
- Minimize the need for working capital borrowing;
- Meet commitments, obligations or other contingencies;
- Provide flexibility for new organizational priorities; and
- Generate investment income.

## 2. LEGISLATIVE CONTEXT

Regulation 8(1) of municipal Budgeting and Reporting Regulations, 2008 requires that each municipality must have funding and reserves policy which set out assumptions and methodology for estimating:

- Projected billings, collections and all direct revenue
- The provision for revenue that will not be collected
- The funds the municipality can expect to receive from investments
- The dividends the municipality can expect to receive from municipal entities
- The proceeds the municipality can expect to receive from transfer or disposal of assets
- The municipality's borrowing requirements
- The funds to be set aside as reserves

## 3. DEFINITIONS

Reserve: is the retained surplus set aside for a specific purpose.

Statutory Funds: are reserves which a municipality is required to create and maintain in terms of specific legislation.

Special Funds: are those funds which can be created in terms of legislation but at the discretion of Council.

Funds: are the accumulations included in statutory and special funds. Such accumulations will usually be represented by cash.

## 4. FUNDING AND RESERVES PRINCIPLES

a) Reserves shall be accounted for separate and apart from Operating Funds.

b) the Chief Financial Officer shall be responsible for developing and recommending policies and guidelines for the investment of the reserve assets and for approval by Council

c) the reserve goal shall be to achieve and maintain between three and six months of Program Funding and Operating Costs. .

d) the municipality shall, as far as circumstances reasonably permit, ensure surplus generated from its trading services, shall firstly be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both.

e) During those periods when cash revenues are not needed for capital or operational purposes, shall be invested in terms of the approved Investments Policy.

f) The reserves shall be intended to serve a dynamic role and must be available to be utilized as needed rather than being static, devoted only to generating interest income.

## 5. FUNDING OF ANNUAL BUDGETS

### 5.1 Revenue Projections

The municipality's cash flow budget shall be based on revenue projections that must part of the cash management programme which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

The Chief Financial Officer shall prepare an annual estimate of the municipality's cash flows, in line with the approved Banking and Investment Policy, Municipal Budgeting and Reporting Regulations of 2008, and any other prescribe guidelines by the National Treasury.

The revenue projections must be based of realistically anticipated revenues, taking into account projected revenue for the current year based on collection levels to date; and actual revenue collected in previous financial years.

The estimate must indicate when and for what periods and amounts surplus revenues may be invested, put in reserves, for what amounts investments and reserves will have to be liquidated, and for what purpose.

Estimated projection for revenue from rates and taxes, levies and services charges that will not be collected shall be budgeted for separately and reflected on the expenditure side of the of the annual operating budget.

All consumers and ratepayers shall be accounted for in the annual budget calculations, and all property records, billing system information and metering information must be consistent with the revenue projections.

5.2 Operating Expenditure

The annual budgets of the municipality shall only be funded from the following sources:

a) realistically anticipated revenues to be collected, consistent with trends, current and past, of actual funding received or collected;

b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and

c) borrowed funds, in terms of the approved Borrowing Policy

5.3 Capital Expenditure

The municipality's capital budget must show all the capital expenditure budgeted for and the different funding for each capital expenditure item by source.

All sources of capital funding budgeted for must be available and not committed for any other purpose.

The total budgeted capital funding by sources must be equal to the total budgeted expenditure capital expenditure.

5.4 Unspent funds

The appropriation of funds in an annual or adjustments budget lapses to the extent that those funds are unspent at the end of the financial year to which the budget relates, except in the case of an appropriation for expenditure made for a period longer than that financial year in terms of section 16(3) of Municipal Finance Management Act.

## 7. STATUTORY AND SPECIAL FUNDS

### 7.1 Investment of statutory and special funds

The balance on a statutory fund should be represented by cash at all times, and in the event where The balance on the statutory fund are not represented by cash, must be transferred to retained surpluses through the appropriation section of the income statement by journal entry.

Cash attributed to a statutory fund shall not be used for another purpose, other than the purpose for which the fund was created.

### 7.2 Interest on invested funds

Interest earned on invested statutory funds or special funds must be credited to the statutory or special fund for which such interest is attributable to.

Interest earned on externally invested funds shall be treated as revenue and shall be included in the determination of the net surplus or deficit for the year.

### 7.3 Utilization of funds for the purpose of financing property, plant and equipment

The purpose of a statutory or special fund is to accumulate cash over a period of time in order to provide financing for the acquisition of items of property, plant and equipment.

When the cash in these funds is utilised to acquire items of property, plant and equipment, the balance in the funds shall be reduced accordingly by transferring a corresponding amount to a non-distributable reserve.

The balance in the non-distributable must be transferred to the income statement over the estimated life of the property, plant and equipment financed by statutory or special funds to offset the depreciation charge included in the income statement relating to this property, plant and equipment.

### 7.4 Profit and loss on the disposal of property, plant and equipment

When an asset is disposed, the balance in the non-distributable reserve which relates specifically to that asset must be transferred to retained surpluses through the appropriation section of the income statement.

Profit or loss on disposal of items of property, plant and equipment must be transferred to a statutory or special fund.

7.5 Repayment of financing obtained from funds

In cases where internal loan was advanced in terms of the Borrowing Policy of the Council to finance property, plant and equipment, any cash repayment attributable to statutory funds that was used to finance property, plant and equipment, shall be repaid to the statutory or special fund concerned over the estimated life of the asset or a shorter period.

8. RELIEF, CHARITABLE, TRUST OR OTHER FUNDS

A municipality shall, in terms of section 7 of Municipal Finance Management Act, open a separate bank account in the name of the municipality for the purpose of a relief, charitable, trust or other fund. All monies received for the purpose for which the fund was established shall be paid into this account.

Relief, Charitable, Trust or other funds established in terms of section 12 of Municipal Finance Management Act, 2003, Act 56 of 2003 must be full cash backed.

An expenditure or donation in relation to these funds in support of the objectives for which the fund was established shall be made only if approved in an annual budget or adjustment budget.

No municipal funds shall be paid into these funds

9. RESERVES

The municipality shall, where appropriate, create a reserve to set aside funds for expenses that are expected to be incurred in future years. For example, to set aside funds each year to finance the cost of a revaluation of all land and buildings in a municipality's area of jurisdiction for rating purposes.

9.1 Sources

Reserves shall be created from operating surpluses not committed for other purposes, interest earned on investments other than that earned of statutory and other funds invested, certain donor funding , and other sources the Council may deem to be appropriate.

9.2 Uses of Reserves

Expenses must not be charged directly to reserves, and reserves shall be used generally for the following or other needs that council may deem appropriate:

- to meet unfunded and unexpected organization needs
- for emergency and emerging needs of the Council
- to stabilize a level of increase in bulk water and electricity, etc.
- to supplement operating revenues and maintain acceptable service delivery standards in situations where revenue collections have declined.

9.3 Procedures for use

The procedure for approving use of the reserve funds will be as follows:

1. Request must be submitted to Finance Committee through the Chief Financial Officer

2. The Finance Committee to take appropriate action.

3. The Finance Committee shall make recommendation to Council.

4. Approval / Disapproval by the Council